

# **NS LIVE CASE SERIES 2017: INTERNAL AUDIT – AN ENABLER OF INTELLIGENT RISK TAKING**

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**NEW SYNTHESIS OF PUBLIC ADMINISTRATION**

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*The opinions expressed in this case study are the author's own and do not necessarily reflect the views of other organizations mentioned and/or identified herein.*

# The Context

Citizens expect their public services to be delivered in an effective, efficient and timely manner. While controls and processes are established to ensure sound stewardship of public resources, too many controls and risk aversion can sometimes hinder public outcomes.

All controls are created to address risks identified at a given time. Once they are in place, controls and processes can become very difficult to eliminate, particularly in a risk averse culture. This is a challenge both for management, as well as internal auditors.

Managers can struggle to let go of controls and processes that may be unnecessary, as they may have a perception that they are in place to mitigate risks. The fear of 'failure' or non-compliance sometimes exceeds the willingness to eliminate some controls, even if those controls are known to be excessive and/or of limited value. Controls provide a sense of security against perceived risks, while not always considering cost effectiveness. Following prescribed processes and procedures reduces concerns about failure and the perceived consequences of non-compliance.

Although proposing more efficient processes is part of their mandate, internal auditors in the public sector often make recommendations that achieve precisely the opposite effect; adding controls or processes rather than removing controls that can be disproportionate to the risks. Auditors may be reluctant to recommend eliminating excessive controls due to concerns that their removal may result in future control failures, potentially impacting their credibility. Auditors often place a greater emphasis on examining the effectiveness of existing controls and the efficiency in administering them, rather than challenging risk tolerances or whether the controls should be maintained based on the current risk environment.

Over time, excessive controls and requirements for multiple layers of approval may stifle an organization's ability to achieve intended outcomes in an effective and efficient manner, limiting its ability to innovate and improve program delivery.

## Strengthening Stewardship and Accountability and Growing Risk Aversion: The Government of Canada Experience

In the early part of the 21st century, following a string of control failures in both the private and public sectors, the Government of Canada implemented measures to strengthen stewardship and accountability. This included bolstering the role of internal audit.

Since the introduction of the updated Treasury Board Internal Audit Policy in 2006 (and subsequent updates since), internal audit has established itself as an effective internal oversight tool for deputy heads and as trusted advisors to senior managers across the public service. Over the past decade, internal audit has directly contributed to strengthening stewardship and accountability, in part, through improved management controls and frameworks.

Internal audit provides assurance on the efficiency and effectiveness of governance, risk management, and control frameworks. There is often an emphasis on mitigating risks identified by management, rather than questioning whether risks actually warrant the controls in place. Internal audit has proven to be an effective tool to provide assurance to deputy heads that controls were working as intended to mitigate related risks. This traditional approach to audit, however, does not challenge the need or actual value of the control and/or process or question its cost effectiveness.

The focus on strengthening stewardship and accountability has inherently led to an increase in the number of organizational controls, bureaucratic processes and growing risk aversion. This has sometimes led to more costly and less timely service delivery to citizens; and runs counter to the government’s continuous search for ways to deliver better services with limited resources.

## Thinking Beyond Compliance: Internal Audit at Natural Resources Canada

In 2013, the Internal Audit Branch at Natural Resources Canada (NRCan) began to look at how it could play a more proactive role towards supporting the Department’s delivery of efficient, effective and timely services to citizens.



It concluded that NRCan’s internal audit function would need to transform its service delivery model towards supporting intelligent risk taking. This concept refers to the empowerment of public servants to make decisions by considering risk, rather than avoiding decision-making for fear of failure.

Rather than focussing on its traditional role with its emphasis on compliance and mitigating risks, the internal audit function would work towards positioning itself as an enabler of intelligent risk-taking, in addition to its role as an assurance provider. This approach enabled internal audit to focus on reducing unnecessary organizational controls and bureaucracy, and removing multiple layers of oversight and verification, while continuing to ensure sound stewardship and accountability.

By challenging management’s risk tolerance levels and contesting whether existing controls should be maintained in the current risk environment, internal audit would further increase its value-added by directly contributing to intelligent risk taking. The internal audit function would be transformed from its traditional role of testing the effectiveness of existing internal controls and processes to being viewed by senior management as a more effective tool to help reduce unnecessary and costly bureaucratic processes. In doing so, internal audit would become a partner with service providers in the delivery of effective, efficient and timely services to citizens. Such a culture change would result in internal audit evolving towards ‘process busting’ through the systematic application of a ‘lean strategy’ in many internal audit engagements.

## A Change in Focus

To support this transformation at NRCan, internal audit is shifting to play a two-pronged role:

- Challenging risk tolerance levels in the department to eliminate or reduce redundant controls and bureaucratic processes, while at the same time;
- Remaining committed to providing assurance on the effectiveness of relevant controls and processes and making recommendations to strengthen controls where necessary for legislative and government policy requirements to support sound stewardship.

This dual role is leading to an increased number of audit recommendations that result in the elimination of excessive or redundant controls, a reduction in multiple layers of approval, the simplification of bureaucratic processes and the elimination of oversight committees that can sometimes provide questionable value and cloud accountabilities. Successes recently achieved include:

- A significant reduction in the files regularly reviewed by senior management committee and a shift toward more risk based advice;
- More targeted training for employees based on their specialized responsibilities and job requirements; and,
- Less burdensome reporting and oversight for low-risk funding transfers to other federal government departments.

# Culture Change, Relationship Building, Learning from Others and Communicating Successes

Internal auditors across the public service are successfully changing how they perceive and execute their role, establishing themselves as trusted advisors, rather than the traditional adversary or ‘watch-dog’ role.

At NRCan, refocussing internal audit to be an effective agent of organisational change and enabler of intelligent risk-taking has required culture change both within internal audit and across the organization. To achieve success the audit function had to: build capacity with right fit employees; obtain buy-in from key partners; and build effective relationships, particularly with the Departmental Audit Committee (DAC).

The change within the internal audit function at NRCan required a shift away from the traditional focus on compliance and a perception that its value-added was through compliance assurance. Culture change required a multi-faceted strategy that included recruiting ‘right fit’ employees with the right experience, professional designations and leadership competencies to succeed. Fresh and consistent messaging on the ‘new’ role of internal audit was also supported by appropriate coaching and training.

Managing the larger organization’s culture and perception of internal audit was dependent on building sound relationships with senior management. Over the past few years, senior management have come to view internal audit as a strategic and credible partner. Changing that perception meant building relationships to establish senior management’s trust in internal audit. This also required a multi-dimensional approach. It included, changing the nature and tone of audit reports so they were more balanced in delivering messages to emphasize the positive as well providing constructive feedback. Internal audit also actively participated as a trusted partner and advisor on internal management committees and worked in collaboration with management selecting audit projects and developing recommendations. This meant providing managers with an early warning of problems so they could take corrective action right away rather than waiting for a report to be published. It also involved minimizing audit burden by working with other internal service providers who have similar oversight interests (such as evaluation and financial management functions) to set priorities, generate buy-in for coordinated efforts and joint reviews, and avoid duplication.

DAC members, as advisors to the Deputy Head, have been an integral partner in supporting and promoting this change in direction over the past few years. They have in-depth knowledge and perspectives that are shared from an external viewpoint that leverages both private and public sector experience. The change in direction is consistent with expectations in the private sector where performance measurement targets are often related to reducing costs. There has also been an increased emphasis on internal audit conducting ‘consulting engagements’ in the private sector rather than solely focusing on traditional assurance engagements.

# Looking Forward

## Increasing the Value Proposition for Internal Audit at NRCan

Looking forward, as part of the provision of assurance services, the Internal Audit Branch hopes to continue challenging the relevance of the controls and processes, in consideration of the actual risk, while testing relevant controls for effectiveness. This approach will allow the function to identify opportunities to provide insight to management on actual versus perceived risks and eliminate unnecessary controls, when appropriate.

Internal audit will also look to further increase its value to NRCan by playing a greater role in the early stages of program development by leveraging its knowledge and expertise to support senior management in the development of controls and processes at the onset of new initiatives. This could lead to leaner processes, reduced bureaucracy and improved service to citizens. The ultimate goal is to position internal audit to support NRCan in achieving greater cost savings and efficiencies that citizens expect from their government.

## Beyond NRCan

The reduction in the cost of government and more timely delivery of services continues to be a priority for all public servants. Deputy heads and senior executives are continuously seeking solutions to meet an increasing demand for improved services with limited resources. With the pressure for change mounting, departments have a vested interest in exploring options, including further leveraging internal audit, to support this change.

A common goal of internal audit functions across the public service is to maintain effective oversight in their organizations while actively supporting transition. Effectively positioning themselves as enablers of intelligent risk taking will be critical to maximizing their value added and remaining relevant.

NRCan's internal audit function will continue to work with other internal audit groups by leveraging and expanding its current network to share practices and successes with executives in other departments to influence similar changes in their organizations. This can be achieved through: promoting NRCan's achievements at inter-departmental committees and professional training and networking events; regularly sharing best practices with colleagues across internal audit functions through formal and informal mechanisms; and working with central agencies to continue promoting the 'value-proposition' of internal audit.

The influence of the Office of the Comptroller General and support for ongoing initiatives related to promoting innovation in internal audit is also critical to increasing this culture shift across the public service. Over time, success in changing the culture and the perception of internal audit within



Leveraging the Power of Others

SHARING BEST PRACTICES AND SUCCESSES  
AND  
USING THE POWER OF MANY TO REPOSITION THE  
"VALUE-PROPOSITION" OF INTERNAL AUDIT

their respective organizations will be realized by building on the collective efforts of internal auditors in departments and of central agencies across the government.

Culture change could also be achieved by placing successful senior internal audit executives and managers in various program delivery roles. Programs could benefit from a unique set of skills and perspectives to strengthen the effectiveness and efficiency of program delivery. This would also enable internal auditors to leverage their management skills and business acumen from a program delivery perspective. Internal auditors could leverage their skills to become effective program managers directly enabling 'intelligent risk taking' at the program level by leveraging their skills and knowledge around of risk management, controls and governance mechanisms.

The impact such changes could have on society and citizens would primarily be the reduction in the cost of government and more timely delivery of quality services through intelligent risk-taking. Service delays due to unnecessary bureaucratic processes could be reduced and efficiencies could be gained resulting in real savings to the taxpayer and the freeing of up departmental resources that could be reallocated to help deliver on other government priorities.



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